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Comments on ED Deferred Tax: Recovery of Underlying Assets

Pearl TAN
Singapore Management University, pearltan@smu.edu.sg

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International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Sirs:

Exposure Draft Deferred Tax: Recovery of Underlying Assets (Proposed Amendments to IAS 12)

I provide, in my personal capacity, comments on the above exposure draft.

I have some concerns regarding the rebuttable presumption that an intangible asset or property, plant or equipment (PPE) is held for sale if the revaluation model is applied.

First, this presumption contradicts the definition of PPE in IAS 16 and the implied holding intention of an intangible asset under IAS 38.

In IAS 16, PPE is defined as "*tangible items that:*

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period".

In IAS 38, intangible assets that are held for sale are excluded from the scope of the standard. Implicitly, intangible assets, whether measured at cost or revaluation are implicitly held for use.

Second, there are many reasons why a company may choose the revaluation model over the cost model for PPE and intangible assets. These reasons are not necessarily linked to the intention to recover the value of the asset through sale. It is simplistic and arbitrary to assume that if fair values are used to measure an asset, the holder has an intention to sell the asset.

With regards to investment property, IAS 40 defines the property as one that is held to "earn rentals and for capital appreciation or both rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business."

There may be a better justification for the rebuttable presumption to be applied to investment property rather than PPE or intangible asset. Even then, the rebuttable presumption in the exposure draft contradicts the holding intention implied in the definition of investment property.

Hence, I do not agree with the IASB's proposal in the exposure draft.

I would rather that the IASB adopt a business model approach whereby:

(a) it is presumed that most companies would hold property, plant and equipment and intangible assets for use, unless there is a clear evidence to the contrary; and

(b) (i) Allow the owners of investment property to determine their primary intention for holding that property and to account for the deferred taxation accordingly; and

(ii) in the event that it is not possible to determine their primary intention (i.e. the intentions are mixed), to assume that the property measured under the fair value model is held for sale.

Yours sincerely

Pearl Tan (Dr)
Practice Associate Professor of Accounting
School of Accountancy
Singapore Management University
60 Stamford Road
Singapore 178900
Email: pearltan@smu.edu.sg